




J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 16, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **FISCAL AND PROGRAM MONITORING OF COMMUNITY AND SENIOR SERVICES' FISCAL YEAR 2003-04 EMPLOYMENT AND TRAINING PROGRAM SERVICE PROVIDERS**

At the request of the Department of Community and Senior Services (CSS), we engaged Simpson & Simpson, Certified Public Accountants (Simpson), to conduct fiscal and program monitoring of the 73 community-based organizations that provided Employment and Training Program services for CSS during Fiscal Year 2003-04. The Department paid approximately \$75 million to the community-based organizations during the Fiscal Year.

REVIEW SUMMARY

Simpson has completed its fiscal and program monitoring reviews and has reported the findings for each service provider to the Department and to the respective service providers. During the reviews Simpson noted the following significant findings:

- Nineteen (26%) of the 73 contractors did not have documentation to support the cost allocation method used to allocate approximately \$227,216 to the Employment and Training program.
- Thirty-four (47%) of the 73 contractors did not have documentation to support \$1,194,758 in expenditures.
- Six (8%) of the 73 contractors billed \$128,840 in purchases or leases of fixed assets or discretionary expenditures without County approval.

- Twenty-six (36%) of the 73 contractors billed \$1,250,214 in expenditures not recorded or inappropriately recorded on the contractor's accounting records.
- Two (3%) of the 73 contractors inappropriately billed \$228 in Fiscal Year 2002-03 expenditures to Fiscal Year 2003-04.
- Two contractors' audited financial statements indicate signs of financial instability.

Attachment I is a summary of Simpson's significant findings by contractor.

Simpson's management letter (Attachment II) included three recommendations regarding CSS' training and monitoring of the service providers. The first recommendation requires CSS to work closely with the contractors to ensure that they adequately understand and apply cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal grants. The second recommendation relates to the timeliness of CSS' review of the contractors' cost allocation plans. The third recommendation suggests monitoring of the contractors should start earlier in the contract year so problems can be detected and reported earlier.

REVIEW OF REPORT

All reports were discussed with CSS and the service providers. CSS indicated that they will contact all the agencies with reported findings and will meet with them to resolve all open findings and implement corrective action plans by May 31, 2005. CSS' response to the recommendations contained in the management letter is included in Attachment III.

Because of the number of service providers, copies of individual reports are not enclosed, but they are available for your review. Please call me or have your staff call Terri Kasman at (626) 293-1121 if you wish to review any reports.

JTM:MMO:TK

Attachments

c: David E. Janssen, Chief Administrative Officer
Cynthia D. Banks, Interim Director, Department of Community and Senior Services
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

No.	Provider	No. of Recommendations (1)	No. Implemented	Significant Findings					
				A	B	C	D	E	F
1.	Affiliated Computer Services (ACS/East L. A.)	2	2						
2.	Antelope Valley Workforce Development Consortium	7	1	\$38,135	\$425 (1)		\$53,114 (1)		
3.	Armenian Evangelical Social Services	1	1						
4.	Armenian Relief Society	5	1				\$1,579		
5.	Asian American Drug Abuse Program	0	0						
6.	ASSERT, Inc.	11	0	\$2,744	(1)		\$370		X
7.	Basic Adult Spanish Education	8	4	\$4,783	\$1,883 (1)		\$713		
8.	Cambodian Association of America	5	4		(1)		\$22		
9.	Career Partners	5	2	\$108,579	\$300		\$1,736		
10.	Career Planning Center, Inc.	2	1				\$75		
11.	Carson/Lomita/Torrance WIA	1	0						
12.	Catholic Charities of L.A.	10	0		(1)		\$292		
13.	CBD College	3	3		(1)				
14.	Chicana Service Action Center, Inc.	9	0			\$16,716	\$100		
15.	City of L. A. Community Development Department	2	1				\$813,548		
16.	City of Long Beach Workforce Development Bureau	0	0						
17.	Communities In Schools of South Bay, Inc.	9	9		\$357		\$723		

No.	Provider	No. of Recommendations (1)	No. Implemented	Significant Findings					
				A	B	C	D	E	F
18.	Community Build	5	2		(1)				
19.	Community Employment Project	12	0	(1)		\$664	\$16,534		
20.	Community Enhancement Project	0	0						
21.	Community Rehabilitatin Industries	0	0						
22.	Compton CareerLink	8	0	\$27,106	\$2,151		\$21,197	(1)	
23.	David & Margaret	3	0		\$847				
24.	Department of Health Services	5	0		\$10,998 (1)			\$228	
25.	Door of Hope	8	5		\$19,200				
26.	Economic and Employment Development Center	4	2						
27.	El Proyecto Del Barrio	4	1	(1)	\$10,166		\$3,051 (1)		
28.	Foothill WIB - City of Pasadena	1	0				(1)		
29.	GLASS	2	0						
30.	Glendale Adventist medical Center	0	0						
31.	Goodwill Industries	2	2						
32.	HELP Group	10	7		\$1,372	\$4,050	\$556		
33.	Housing Authority of the City of L. A.	6	5		\$2,265		\$1,320		
34.	Hub Cities Consortium	7	4	\$17,077	\$5,370 (1)		(1)		
35.	International Institute of L. A.	8	2						

No.	Provider	No. of Recommendations (1)	No. Implemented	Significant Findings					
				A	B	C	D	E	F
36.	Jewish Vocational Service	5	1	(1)	\$1,521				
37.	Jovenes, Inc.	4	0						
38.	L. A. Conservation Corps.	1	1						
39.	L.A. County Office of Education (LACOE)	7	6		\$288,901				
40.	L.A. Unified School District (LAUSD)	4	2						
41.	L.A. Urban League-Pomona	5	1	(1)		\$84,158			
42.	L.A. Urban League-South Central	9	2	(1)	(1)	\$22,835	\$171,585 (1)		
43.	L.A. Works (ESGVC)	4	3				\$135,909		
44.	Maravilla Foundation	2	2						
45.	MRA, Inc. Center for Family Self-sufficiency	3	0	(1)			(1)		
46.	MCS Rehabilitation, Inc.	1	1		\$84,058				
47.	Mexican American Opportunity Foundation	0	0						
48.	New Directions	0	0						
49.	WorkSource CA. Northeast San Fernando Valley L.A. Community College District	1	1	(1)					
50.	Office of Samoan Affairs	3	3		(1)		\$132		
51.	Pacific Asian Consorsitium in Employment	0	0						
52.	Penny Lane	4	0	(1)	\$4,600				

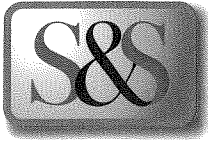
No.	Provider	No. of Recommendations (1)	No. Implemented	Significant Findings					
				A	B	C	D	E	F
53.	Pomona Valley Youth Employment Services	2	2						
54.	R. L. Klein	3	0		(1)				
55.	SASSFA	1	0						
56.	Salvation Army	1	1						
57.	SER - Jobs for Progress	10	0	(1)	\$298,810 (1)				
58.	Santa Clarita	5	5						
59.	Soledad Enrichment Action, Inc.	14	2		\$43,072 (1)	\$417	\$196		
60.	South Bay WIB, City of Hawthorne	11	3		\$50,545		\$26,001		
61.	Southeast L. A. County WIB	0	0						
62.	Special Services for Groups	1	1						
63.	Starview Children & Family Services	2	1						
64.	Streetlights Production Assistant Program	3	0		\$11,703				
65.	TTI America	2	0	\$3,992			\$1,407		
66.	The Actor's Fund of America	6	2		\$4,230 (1)				
67.	UAW-LETC	3	2	\$5,265	(1)				
68.	United Cambodian Community Council	5	1						X
69.	Van Ness Recovery House	6	0	\$19,224	\$333,992				

No.	Provider	No. of Recommendations (1)	No. Implemented	Significant Findings					
				A	B	C	D	E	F
70.	Verdugo	1	0		(1)				
71.	Weingart Center Association	2	1						
72.	William S. Hart Union High School District	4	0	\$311	\$4,573				
73.	Youth Opportunities Unlimited	7	6		\$13,419 (1)		\$54 (1)		
Total		307	109	\$227,216	\$1,194,758	\$128,840	\$1,250,214	\$228	

SUMMARY CODES

- A. Does not have documentation to support the cost allocation method used to allocate expenses to the programs
- B. Expenditures or units billed are not supported with documentation
- C. Purchases/leases of fixed assets or discretionary expenses without County approval
- D. Expenditures billed are not recorded or are inappropriately recorded on contractor's accounting records
- E. Billed FY 2002-03 expenditures in FY 2003-04
- F. Audited Financial Statements indicate signs of financial instability

(1) Simpson and Simpson was not able to determine the dollar value of one or more findings in this category



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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In planning and performing the 2003-2004 Department of Community and Senior Services Employment and Training Service Providers Monitoring, we noted certain matters involving the Department of Community and Senior Services' (CSS) internal control structure relating to accounting and contract administration that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report Employment and Training Program (ETP) grant expenditures.

Our observations and recommendations are presented in Exhibit I.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the ETP program grant expenditures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The scope of our engagement was limited to monitoring ETP service providers and did not include considering and providing assurance on CSS' internal control structure. Such monitoring would not disclose all matters in CSS' internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described in Exhibit I is a material weakness.

This report is intended solely for the use of the County of Los Angeles and is not intended to be and should not be used by anyone other than the specified party.

Los Angeles, California
December 6, 2004



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Condition # 1 – Inappropriate Cost Allocations Charged by Service Providers

During our monitoring visits, we noticed that certain service providers inappropriately charged indirect or shared costs to the ETP programs or did not maintain the required documentation for the charged costs. Some of the service providers, especially ones that were new to the ETP programs, did not have an adequate understanding of the cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal awards. Moreover, even though the service providers submitted their cost allocation plans to CSS at the beginning of the contract year, they did not receive feedback on whether the plans submitted were acceptable or not. By the time we alerted the service providers of the problem during our monitoring visits in May or June 2004, it was already close to the end of the contract term.

We recommend the following:

1. CSS should work closely with the service providers, and provide technical assistance if necessary, to:
 - Ascertain that they have an adequate understanding of the cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal awards.
 - Ensure the service providers are applying the cost principles, established by the Office of Management and Budget, in their accounting of grant expenditures.
2. CSS should review the cost allocation plans as soon as they are submitted and provide feedback and technical assistance if necessary.
3. CSS should arrange the monitoring visits to occur early during the contract term so problems can be detected earlier.



CYNTHIA D. BANKS
Chief Deputy Director

COMMUNITY AND SENIOR SERVICES
OF LOS ANGELES COUNTY

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"To Enrich Lives Through Effective And Caring Service"

BOARD OF SUPERVISORS

GLORIA MOLINA
YVONNE B. BURKE
ZEV YAROSLAVSKY
DON KNABE
MICHAEL D. ANTONOVICH

Attachment III

February 28, 2005

To: J. Tyler McCauley
Auditor-Controller

From: Cynthia D. Banks
Chief Deputy Director

Subject: **FY 2003-04 COMMUNITY AND SENIOR SERVICES -
EMPLOYMENT AND TRAINING PROGRAMS FISCAL
MONITORING**

Attached is the response to the condition relating to the internal control structure of Community and Senior Services (CSS) noted by the independent auditing firm of Simpson & Simpson when it conducted the fiscal and contract compliance monitoring of the Employment and Training Programs for FY 2003-04.

Should you have questions or need additional information, please contact Jackie Lynn Sakane at (213) 739-7321.

Attachment

c: Jackie Lynn Sakane
Crystal Huang
Yolanda De Ramus

**FY 2003-04 COMMUNITY AND SENIOR SERVICES (CSS)
EMPLOYMENT AND TRAINING PROGRAMS – SERVICE PROVIDER
FISCAL AND CONTRACT COMPLIANCE MONITORING
RESPONSE TO SIMPSON & SIMPSON MANAGEMENT LETTER**

CONDITION 1 – Inappropriate Cost Allocations Charged by Service Providers

During our monitoring visits, we noticed that certain service providers inappropriately charged indirect or shared costs to the ETP programs or did not maintain the required documentation for the charged costs. Some of the service providers, especially ones that were new to the ETP programs, did not have an adequate understanding of the cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal awards. Moreover, even though the service providers submitted their cost allocation plans to CSS at the beginning of the contract year, they did not receive feedback on whether the plans submitted were acceptable or not. By the time we alerted them of the problem during our monitoring visits in May or June 2004, it was already close to the end of the contract term.

CSS' RESPONSE

This has been a historical problem for our service providers, and training and technical assistance have been provided over the course of several years on the requirements of Office of Management and Budget (OMB) circulars and other regulatory requirements and on the development of cost allocation plans. As a matter of fact, we provided cost allocation training to our network of service providers in April 2004. Keep in mind that these service providers experience high turnover rates; therefore, those trained may have left the organization. There also are varying degrees of sophistication amongst the service providers with which we contract as far as their accounting systems capabilities to allocate costs (i.e., some systems allocate costs automatically, while others are allocated manually or with Excel spreadsheets); and the level of knowledge and skills of service provider staff responsible for the allocation of costs varies as well.

We believe that the inappropriate allocation of costs stems not only from a lack of knowledge of OMB and other regulatory requirements, but also in these organizations' abilities to effectively administer grant funds within prescribed requirements. In several instances, service providers are shifting costs to programs where no benefit has been received merely to cover their monthly expenses because they are not able to operate with their grant budgets. As you know, this type of practice is not allowable under OMB.

Therefore, the following steps will be taken and strategies will be considered in an effort to best deal with this issue:

- All service provider cost allocation plans will be reviewed and approved prior to contract execution each program year;
- Technical assistance will be provided to all service providers in order to ensure that their cost allocation plans meet applicable regulations;

A policy directive will be developed and distributed to all *CSS* service providers notifying them of the cost allocation requirements and remedies for resolution if the requirements are not adhered to;

An assessment of service providers who were out of compliance in FY 2003-04 and in prior fiscal years will be conducted by May 31, 2005;

Those identified from the assessment as having repetitive cost allocations issues will be notified that they must ensure *CSS* that this problem will not repeat itself;

Any service providers that do not rectify their cost allocation problems will face sanctions from *CSS*, which could include the termination of any existing contracts or a service provider will not be refunded in a subsequent fiscal year.

TARGET IMPLEMENTATION DATE

JUNE 30,2005